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Research Update:

FPL Group Inc. Downgraded To 'A-' From 'A', Off CreditWatch; Outlook Stable

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Table Of Contents

Overview
Rating Action
Rationale
Outlook
Related Research
Ratings List

Research Update:

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Overview

- We downgraded and removed from CreditWatch negative FPL Group Inc. (FPL) and subsidiaries to 'A-' from 'A' based on greater regulatory risk at utility subsidiary Florida Power & Light (FP&L) and growing investments in unregulated assets under subsidiary FPL Group Capital. The outlook is stable.
- The deteriorated business risk profile is now 'strong' instead of 'excellent'.
- We affirmed the 'A' ratings on Florida Power & Light's first mortgage bonds.
- The financial risk profile remains 'intermediate' and should remain robust enough to support the new ratings if the company remains disciplined in its pursuit of growth at merchant energy producer and marketer NextEra Energy Resources.

Rating Action

On March 11, 2010, Standard & Poor's Ratings Services lowered its corporate credit rating on FPL and subsidiaries to 'A-' from 'A'. At the same time, we removed the ratings from CreditWatch with negative implications where they were placed on Jan. 14, 2010 following an adverse rate case ruling for FP&L. We affirmed 'A' secured debt rating on FP&L, and revised the recovery rating on this debt to '1+' from '1' based on an updated recovery analysis. Juno Beach, Fla.-based FPL has about \$19 billion of debt outstanding.

Rationale

FPL's credit fundamentals on its regulated utility side have been among the strongest in the U.S., due primarily to low regulatory risk and an attractive service territory with healthy economic growth and a sound business environment. Both of those pillars have been weakened in the past year as Florida, and FP&L's service territory in particular, have suffered during the recession, and regulators have responded with decisions that reflect more intense political influence over the regulatory environment. Maintaining financial strength despite regulatory setbacks and a slowly improving economy in Florida will be challenging. In addition, the balance between regulated utility operations and unregulated businesses is projected to trend in favor of the riskier merchant generation, marketing, and trading activities as lower returns and higher regulatory risk in Florida lead to changes in capital allocation decisions. This will erode FPL's business risk profile, which we now deem to be 'strong' instead of 'excellent'.

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The ratings on FPL reflect the strength of the regulated cash flows from integrated electric utility FP&L, and the diverse and substantial cash generation capabilities of its unregulated operations at subsidiary NextEra. FP&L is expected to contribute less than half of the consolidated credit profile and has better business fundamentals than most of its integrated electric peers, with a slightly better-than-average service territory, sound operations, and a credit-supportive regulatory environment. The company's willingness to expand through acquisitions, fluctuating cash flows from NextEra's rapidly-expanding portfolio of merchant generation assets and growing marketing and trading activities, and the utility's significant exposure to natural gas detract from credit quality. Standard & Poor's characterizes FPL's business profile as 'strong' and its financial profile as 'intermediate'. (Our methodology applies the terms 'excellent,' 'strong,' 'satisfactory,' 'fair,' 'weak,' and 'vulnerable' to characterize business risk, and 'minimal,' 'modest,' 'intermediate,' 'significant,' 'aggressive,' and 'highly leveraged' to characterize financial profiles.)

Business risk is anchored by the company's core electric utility operations in Florida, which exhibit strength in almost every area of analysis: the service territory has fared better than most of the rest of the country, although it is lagging in this recessionary environment, the customer mix is mostly residential and commercial, costs and rates are low, and reliability and customer satisfaction are high. While not immune to overall economic trends, we expect Florida to remain attractive to people and jobs over the long term. A large and growing reliance on natural gas to fuel utility generation could, over time, turn from an advantage (because of its favorable environmental status) to a weakness if gas prices continue to significantly fluctuate and rise over time. Regulatory risk, the most important risk a utility faces, has been well managed at FP&L but has risen of late as regulators have reacted to weak economic conditions and keener attention in the political arena with a series of decisions for FP&L that fall short of the very sound record of past support for credit quality.

NextEra, the main subsidiary under unregulated Group Capital, engages in electric generation, marketing, and trading throughout the U.S. NextEra's focus is on geographic and fuel diversity and on developing environmentally advantageous facilities that could benefit from climate change political trends. The merchant generator's capacity of more than 18,000 MW consists of more than 40% wind turbines, a little over one-third natural gas-fired stations, and the rest mainly nuclear facilities. Three-quarters of the wind projects, one-third of the natural gas capacity, and three of the four nuclear units operate under largely fixed-price, long-term contracts. The rest of the portfolio, including one nuclear plant, is merchant capacity that is exposed to market prices for its output. While a policy of actively hedging the commodity price risk of plant inputs and outputs helps to dampen the risks associated with energy merchant activities, there is an inherent risk level at NextEra that cannot be avoided. Such risk permanently hinders credit quality, especially in light of the growing influence of marketing and high-risk proprietary trading results in NextEra's earnings and cash flows.

We believe the governance and financial policies used to manage risk are adequate. FPL's financial profile is characterized by very healthy credit metrics, ample liquidity, and a management attitude toward credit quality that

supports ratings. Importantly, sophisticated, but complex, financial structures employed at the project level substantiate significant off-credit treatment of largely non-recourse debt at NextEra. Any indication that FPL management would use its own financial resources to aid a troubled project in support of strategic objectives could lead Standard & Poor's to reevaluate the adjustments made to FPL's reported debt. Large adjustments are also factored into the credit analysis regarding hybrid debt instruments and power purchase agreements at FP&L. Adjusted credit metrics in current economic and market conditions support the 'intermediate' financial profile. The metrics are expected to remain steady, including funds from operations (FFO) to debt of around 25% and debt-to-capitalization below 50%.

Short-term credit factors

The short-term rating on FPL is 'A-2'. FPL's available cash flow is not sufficient to fund its large capital expenditure plans and dividends and is expected to remain that way for the foreseeable future. FPL has ample liquidity with \$6.4 billion of revolving bank facilities maturing mainly in 2013, and a \$250 million revolving term loan maturing in 2011. Almost \$4.4 billion of liquidity was available as of Dec. 31, 2009, including \$238 million of cash and equivalents on the balance sheet. The facilities support commercial paper programs at FP&L and Capital and letters of credit. By analyzing a stress scenario to assess FPL's liquidity adequacy to cover exposure to adverse market and credit events, Standard & Poor's expects that the company has sufficient liquidity under those conditions. The company's maturity schedule subsides over time, with maturities peaking at over \$2 billion during 2011.

Outlook

The outlook on FPL and subsidiaries is stable and reflects a business profile that is increasingly dominated by higher-risk merchant energy activities and a utility that still presents an above-average credit profile compared to its U.S. peers. We would consider a negative outlook if some combination of worsening regulatory risk at FP&L, deteriorating operational efficiency at NextEra, investment decisions that favor NextEra over FP&L to an even greater degree, or poor financial performance because of the Florida economy, unfavorable energy markets, or risk management missteps indicate that the credit profile is likely to decline. We could consider a positive outlook if a dramatic shift in the Florida economic, political, and regulatory environment appears to be sustainable over a long time horizon and affirmative steps are taken to reduce risk at NextEra.

Related Research

Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, RatingsDirect May 27, 2009
Assessing U.S. Utility Regulatory Environments, RatingsDirect, Nov. 7, 2008.

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Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
FPL Group Inc. Corporate Credit Rating	A-/Stable/--	A/Watch Neg/--
FPL Group Capital Inc. Florida Power & Light Co. Corporate Credit Rating	A-/Stable/A-2	A/Watch Neg/A-1
FPL Fuels Inc. Commercial Paper	A-2	A-1/Watch Neg
FPL Group Capital Inc. Senior Unsecured	BBB+	A-/Watch Neg
Junior Subordinated	BBB	BBB+/Watch Neg
Commercial Paper	A-2	A-1/Watch Neg
FPL Group Capital Trust I Preferred Stock	BBB	BBB+/Watch Neg
Florida Power & Light Co. Preferred Stock	BBB	BBB+/Watch Neg
Commercial Paper	A-2	A-1/Watch Neg

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Florida Power & Light Co. Senior Secured	A	A/Watch Neg
Recovery Rating	1+	1

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